

**RUSSELL COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2016**

TABLE OF CONTENTS

Independent Auditor's Report	1-3
Management Discussion and Analysis	4-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20-21
Notes to Basic Financial Statements	22-41
Required Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	42
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	43
Schedule of District's Proportionate Share of Net Pension Liability – Kentucky Teachers' Retirement System	44
Schedule of District's Proportionate Share of Net Pension Liability – County Employees Retirement System	45

TABLE OF CONTENTS (CONTINUED)

Schedule of Contributions to the County Employees Retirement System	46
Schedule of Contributions to the Kentucky Teachers Retirement System	47
Notes to Required Supplementary Information – District’s Proportionate Share of Net Pension Liabilities	48-49
Other Supplementary Information:	
Combining Statement – Non-Major Funds:	
Combining Balance Sheet – Non-Major Governmental Funds	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	51
Combining Statement of Revenues, Expenditures and Fund Balances – Agency Funds	52
Statement of Receipts, Disbursements and Fund Balance – High School Activity Fund	53
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	55
Schedule of Findings and Questioned Costs	56
Schedule of Prior Year Audit Findings	57
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58-59
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	60-62
Management Letter Comments	63-66
Letter to Those Charged with Governance	67-69

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October 21, 2016

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and, budgetary comparison information, and schedules of the district's proportionate share of net pension liabilities on Pages 4 through 10, 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Russell County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2016, on our consideration of Russell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Russell County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**RUSSELL COUNTY PUBLIC SCHOOL DISTRICT – Jamestown, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

As management of the Russell County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The June 30, 2015 cash balance for the District was \$4,019,751, as compared with the beginning cash balance of \$4,506,353. The ending cash balance consists of General Fund of \$2,363,923, Special Revenue of \$514,271, District Activity Fund of \$21,578, Capital Outlay of \$4,776, Building (FSPK) Fund of \$0, Construction Fund of \$590,130, Debt Service Fund of \$19,206 and Food Service of \$505,867.
- District-wide net position decreased \$464,681 during the 2016 fiscal year. Total long-term obligations had a net decrease of \$295,059.
- The General Fund had \$23.0 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$23.5 million in General Fund expenditures.
- General Fund revenue decreased \$54,967 from last fiscal year and General Fund expenses increased \$462,730.
- The financial statements reflect revenues of \$5,706,577 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-21 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statements can be found on pages 22-41 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$15.1 million as of June 30, 2016.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2016 and June 30, 2015

A comparison of June 30, 2016 and June 30, 2015 government wide net position is as follows:

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 4,192,474	\$ 6,212,075	\$ 548,880	\$ 250,110	\$ 4,741,354	\$ 6,462,185
Capital Assets	50,289,600	50,402,457	722,227	797,033	51,011,827	51,199,490
Deferred Outflows	<u>2,802,171</u>	<u>1,501,404</u>			<u>2,802,171</u>	<u>1,501,404</u>
Total Assets and Deferred Outflows	<u>57,284,245</u>	<u>58,115,936</u>	<u>1,271,107</u>	<u>1,047,143</u>	<u>58,555,352</u>	<u>59,163,079</u>
Current Liabilities	3,605,752	3,931,070	685	1,072	3,606,437	3,932,142
Non-Current Liabilities	39,404,950	39,109,891	-	-	39,404,950	39,109,891
Deferred Inflows	<u>449,600</u>	<u>562,000</u>	<u>-</u>	<u>-</u>	<u>449,600</u>	<u>562,000</u>
Total Liabilities	<u>43,460,302</u>	<u>43,602,961</u>	<u>685</u>	<u>1,072</u>	<u>43,460,987</u>	<u>43,604,033</u>
Net Position						
Investment in capital assets (net of related debt)	16,545,545	16,549,363	722,227	797,033	17,267,772	17,346,396
Restricted	624,359	1,781,068	548,195	249,038	1,172,554	2,030,106
Unrestricted	<u>(3,345,961)</u>	<u>(3,817,456)</u>	<u>-</u>	<u>-</u>	<u>(3,345,961)</u>	<u>(3,817,456)</u>
Total Net Position	<u>\$ 13,823,943</u>	<u>\$ 14,512,975</u>	<u>\$ 1,270,422</u>	<u>\$ 1,046,071</u>	<u>\$ 15,094,365</u>	<u>\$ 15,559,046</u>

The following table presents changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
REVENUES						
Program revenues						
Charges for services	\$ 15,444	\$ 27,462	\$ 510,090	\$ 159,502	\$ 525,534	\$ 186,964
Operating grants and contributions	4,036,241	4,412,204	1,995,126	2,059,287	6,031,367	6,471,491
Capital grants	45,466	36,723			45,466	36,723
General revenues						
Property taxes	4,899,509	4,838,026			4,899,509	4,838,026
Motor vehicle taxes	652,230	582,851			652,230	582,851
Utility Taxes	1,134,578	1,225,497			1,134,578	1,225,497
Other taxes	97,967	168,946			97,967	168,946
Investment earnings	32,143	43,049	1,772	568	33,915	43,617
State and formula grants	18,908,249	18,776,799			18,908,249	18,776,799
Miscellaneous	271,965	191,701			271,965	191,701
Total revenues	<u>30,093,792</u>	<u>30,303,258</u>	<u>2,506,988</u>	<u>2,219,357</u>	<u>32,600,780</u>	<u>32,522,615</u>
EXPENSES						
Program Activities						
Instructional	18,911,987	17,844,630			18,911,987	17,844,630
Student support	1,955,457	1,794,774			1,955,457	1,794,774
Instructional staff Support	1,145,027	1,344,288			1,145,027	1,344,288
District administrative support	841,066	802,383			841,066	802,383
School administrative support	1,527,676	1,331,912			1,527,676	1,331,912
Business support	905,230	672,586			905,230	672,586
Plant operations and maintenance	2,211,783	1,964,065			2,211,783	1,964,065
Student transportation	1,820,182	2,055,915			1,820,182	2,055,915
Community service activities	338,147	334,743			338,147	334,743
Other	6,445	18,888			6,445	18,888
Interest costs	1,119,824	1,223,861			1,119,824	1,223,861
Business-type Activities						
Food service			2,282,637	2,242,138	2,282,637	2,242,138
Total expenses	<u>30,782,824</u>	<u>29,388,045</u>	<u>2,282,637</u>	<u>2,242,138</u>	<u>33,065,461</u>	<u>31,630,183</u>
Increase (decrease) in net position	<u>\$ (689,032)</u>	<u>\$ 915,213</u>	<u>\$ 224,351</u>	<u>\$ (22,781)</u>	<u>\$ (464,681)</u>	<u>\$ 892,432</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2016 and 2015 were \$5,706,577 and \$5,711,489 respectively.

Total revenue increased \$78,165 and expenses increased \$1,435,278.

Governmental Activities

For the governmental program expenses instructional expenses comprise 61% of total expenses, support services equate to 34%, and interest and other expenses make up the remaining 5% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Instructional	\$ 18,911,987	\$ 17,844,630	\$ 15,702,286	\$ 14,636,985
Support Services	10,406,505	9,966,197	9,595,776	9,084,592
Other	344,508	353,357	313,253	2,941
Interest Costs	<u>1,119,824</u>	<u>1,223,861</u>	<u>1,074,358</u>	<u>1,187,138</u>
Total Expenses	<u>\$ 30,782,824</u>	<u>\$ 29,388,045</u>	<u>\$ 26,685,673</u>	<u>\$ 24,911,656</u>

Business-Type Activities

The business type activities at the District consist of Food Service. This program had total revenues of \$2,506,988 and expenses of \$2,282,637 for fiscal year 2016. These revenues were made up of \$510,090 charges for services, \$1,995,126 federal and state operating grants, and \$1,772 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2016 was \$30,093,792 and expenditures were \$32,208,427.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$18,526,500 with actual results being \$23,178,119. Budgeted expenditures were \$21,086,500 compared to actual expenditures of \$23,667,180. The most significant cause of the variance between budget and actual revenue were the state on-behalf payments in the amount of \$5,277,858. The most significant cause of the expenditures being over budget was the state on-behalf payments noted above. On-behalf payments were not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2016-2017 with an approximate 2% contingency.

Significant Board action that impacts the finances includes the Board's salary schedules which were increased by % for the 2016-2017. The State did not change the SEEK base of \$3,981 for FY 2017. The unchanged SEEK base and a slight decrease in pupil count results in reduced SEEK funding of approximately \$250,000 for FY 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2016 fiscal year, the District had invested \$51,011,827 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$187,663. Depreciation expense for the year was \$1,812,985 and capital additions were \$1,625,322.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,033,505	\$1,033,505	\$ -	\$ -	\$ 1,033,505	\$ 1,033,505
Construction in Progress	1,495,353	315,043			1,495,353	315,043
Land Improvements	74,570	95,982	-	-	74,570	95,982
Buildings and Improvements	46,513,152	47,978,543	598,948	619,187	47,112,100	48,597,730
Technology	53,806	103,947	388	3,851	54,194	107,798
Vehicles	972,464	705,510	-	-	972,464	705,510
General Equipment	146,750	169,927	122,891	173,995	269,641	343,922
Total	<u>\$50,289,600</u>	<u>\$50,402,457</u>	<u>\$ 722,227</u>	<u>\$ 797,033</u>	<u>\$ 51,011,827</u>	<u>\$ 51,199,490</u>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Beginning Balance	\$ 50,402,457	\$ 42,732,018	\$ 797,033	\$ 874,924	\$ 51,199,490	\$ 43,606,942
Additions	1,625,322	9,075,563			1,625,322	9,075,563
Retirements						
Depreciation	<u>(1,738,179)</u>	<u>(1,405,124)</u>	<u>(74,806)</u>	<u>(77,891)</u>	<u>(1,812,985)</u>	<u>(1,483,015)</u>
Ending Balance	<u>\$ 50,289,600</u>	<u>\$ 50,402,457</u>	<u>\$ 722,227</u>	<u>\$ 797,033</u>	<u>\$ 51,011,827</u>	<u>\$ 51,199,490</u>

Long-Term Debt

The District made scheduled bond principal payments in the amount of \$1,644,700. The District issued \$7,455,000 in revenue bonds to refinance \$7,580,300 of existing bonds at a lower interest rate. The District made scheduled capital lease payments of \$203,996 decreasing the District's capital lease obligations from \$673,051 to \$469,055.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (270) 343-3191.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	3,513,884	505,867	4,019,751
Accounts Receivable:			
Taxes - Current	118,933		118,933
Taxes - Delinquent	7,915		7,915
Accounts	29,200		29,200
Intergovernmental - State	49,486		49,486
Intergovernmental - Federal	473,056	9,026	482,082
Inventories for Consumption		33,987	33,987
Total Current Assets	4,192,474	548,880	4,741,354
Noncurrent Assets - Note G			
Land	1,033,505		1,033,505
Construction In Progress	1,495,353		1,495,353
Buildings & Improvements	64,302,610		64,302,610
Furniture & Equipment	7,379,373	1,928,460	9,307,833
Less: Accumulated Depreciation	(23,921,241)	(1,206,233)	(25,127,474)
Total Noncurrent Assets	50,289,600	722,227	51,011,827
TOTAL ASSETS	54,482,074	1,271,107	55,753,181
Deferred Outflows Related to Pensions	1,694,331		1,694,331
Deferred Outflows Related to Bond Refundings	1,107,840		1,107,840
TOTAL ASSETS AND DEFERRED OUTFLOWS	57,284,245	1,271,107	58,555,352
LIABILITIES:			
Current Liabilities:			
Accounts Payable	216,908	685	217,593
Accrued Salaries & Sick Leave - Note A	196,070		196,070
Advances from Grantors	993,203		993,203
Bond Obligations - Note E	1,790,000		1,790,000
Capital Lease Obligation - Note F	182,778		182,778
Accrued Interest Payable	226,793		226,793
Total Current Liabilities	3,605,752	685	3,606,437
Noncurrent Liabilities:			
Bond Obligations - Note E	31,485,000		31,485,000
Capital Lease Obligation - Note F	286,277		286,277
Unamortized Bond Premiums	52,685		52,685
Net Pension Liability	6,847,176		6,847,176
Deferred Gain on QZAB	80,625		80,625
Accrued Sick Leave - Note A	653,187		653,187
Total Noncurrent Liabilities	39,404,950		39,404,950
TOTAL LIABILITIES	43,010,702	685	43,011,387
Deferred Inflows Related to Pensions	449,600		449,600
TOTAL LIABILITIES AND DEFERRED INFLOWS	43,460,302	685	43,460,987
NET POSITION:			
Net Investment in Capital Assets	16,545,545	722,227	17,267,772
Restricted for:			
Capital Projects	590,130		590,130
Grants	10,628		10,628
Debt Service	19,206		19,206
Other	4,395		4,395
Food Service		548,195	548,195
Unrestricted	(3,345,961)		(3,345,961)
TOTAL NET POSITION	13,823,943	1,270,422	15,094,365
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	57,284,245	1,271,107	58,555,352

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	18,911,987		3,209,701		(15,702,286)		(15,702,286)
Support Services:							
Student Support Services	1,955,457		143,633		(1,811,824)		(1,811,824)
Staff Support Services	1,145,027		529,547		(615,480)		(615,480)
District Administration	841,066				(841,066)		(841,066)
School Administration	1,527,676				(1,527,676)		(1,527,676)
Business Support Services	905,230		38,365		(866,865)		(866,865)
Plant Operation & Maintenance	2,211,783		44,565		(2,167,218)		(2,167,218)
Student Transportation	1,820,182	15,444	39,175		(1,765,563)		(1,765,563)
Central Office	84				(84)		(84)
Community Service Operations	338,147		31,255		(306,892)		(306,892)
Facilities Acquisition & Construction	6,361				(6,361)		(6,361)
Interest on Long-Term Debt	1,119,824			45,466	(1,074,358)		(1,074,358)
TOTAL GOVERNMENTAL ACTIVITIES	<u>30,782,824</u>	<u>15,444</u>	<u>4,036,241</u>	<u>45,466</u>	<u>(26,685,673)</u>		<u>(26,685,673)</u>
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,282,637	510,090	1,995,126			222,579	222,579
TOTAL BUSINESS-TYPE ACTIVITIES	<u>2,282,637</u>	<u>510,090</u>	<u>1,995,126</u>	<u>0</u>	<u>0</u>	<u>222,579</u>	<u>222,579</u>
TOTAL SCHOOL DISTRICT	<u>33,065,461</u>	<u>525,534</u>	<u>6,031,367</u>	<u>45,466</u>	<u>(26,685,673)</u>	<u>222,579</u>	<u>(26,463,094)</u>
GENERAL REVENUES:							
Taxes:							
Property					4,899,509		4,899,509
Motor Vehicle					652,230		652,230
Utility					1,134,578		1,134,578
Other					97,967		97,967
State Aid - Formula Grants					18,908,249		18,908,249
Investment Earnings					32,143	1,772	33,915
Miscellaneous					271,965		271,965
TOTAL GENERAL & SPECIAL					<u>25,996,641</u>	<u>1,772</u>	<u>25,998,413</u>
CHANGE IN NET POSITION					(689,032)	224,351	(464,681)
NET POSITION - BEGINNING OF YEAR					<u>14,512,975</u>	<u>1,046,071</u>	<u>15,559,046</u>
NET POSITION - ENDING					<u>13,823,943</u>	<u>1,270,422</u>	<u>15,094,365</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	2,363,923	514,271	19,206	616,484	3,513,884
Accounts Receivable:					
Taxes - Current	118,933				118,933
Taxes - Delinquent	7,915				7,915
Accounts	29,200				29,200
Intergovernmental - State		49,486			49,486
Intergovernmental - Federal		473,056			473,056
TOTAL ASSETS	<u>2,519,971</u>	<u>1,036,813</u>	<u>19,206</u>	<u>616,484</u>	<u>4,192,474</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	161,967	32,982		21,959	216,908
Advances From Grantors		993,203			993,203
Total Liabilities	<u>161,967</u>	<u>1,026,185</u>	<u>0</u>	<u>21,959</u>	<u>1,210,111</u>
Fund Balance:					
Restricted for:					
Capital Projects				590,130	590,130
Grants		10,628			10,628
Debt Service			19,206		19,206
Other				4,395	4,395
Assigned for:					
Purchase Obligations	293,484				293,484
Unassigned Fund Balance	2,064,520				2,064,520
Total Fund Balance	<u>2,358,004</u>	<u>10,628</u>	<u>19,206</u>	<u>594,525</u>	<u>2,982,363</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>2,519,971</u>	<u>1,036,813</u>	<u>19,206</u>	<u>616,484</u>	<u>4,192,474</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		2,982,363
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	74,210,841	
Accumulated Depreciation	<u>(23,921,241)</u>	50,289,600
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		1,107,840
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		1,694,331
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(33,275,000)	
Capital Lease Obligation	(469,055)	
Accrued Interest on Bonds	(226,793)	
Unamortized Bond Premiums	(52,685)	
Net Pension Liability	(6,847,176)	
Deferred Gain on QZAB	(80,625)	
Accrued Sick Leave	<u>(849,257)</u>	(41,800,591)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(449,600)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>13,823,943</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	GENERAL	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	3,247,961			1,651,548	4,899,509
Motor Vehicle	652,230				652,230
Utility	1,134,578				1,134,578
Other	97,967				97,967
Earnings on Investments	25,431	351		6,361	32,143
Intergovernmental - State	17,283,764	1,087,193	250,415	1,139,536	19,760,908
Intergovernmental - Federal	362,053	2,866,995			3,229,048
Other Sources	201,508	64,323		21,578	287,409
TOTAL REVENUES	23,005,492	4,018,862	250,415	2,819,023	30,093,792
EXPENDITURES:					
Instructional	13,840,732	3,091,302			16,932,034
Support Services:					
Student Support Services	1,757,860	138,335			1,896,195
Staff Support Services	612,006	510,013			1,122,019
District Administration	832,856				832,856
School Administration	1,474,161				1,474,161
Business Support Services	755,057	36,950	93,791		885,798
Plant Operation & Maintenance	2,098,767	42,921		19,979	2,161,667
Student Transportation	2,004,651	37,730			2,042,381
Community Service Operations	36,594	299,773			336,367
Facilities Acquisition & Construction				1,186,671	1,186,671
Debt Service:					
Principal	106,316		1,742,680		1,848,996
Interest	10,018		1,479,264		1,489,282
TOTAL EXPENDITURES	23,529,018	4,157,024	3,315,735	1,206,650	32,208,427
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(523,526)	(138,162)	(3,065,320)	1,612,373	(2,114,635)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds			7,995,000		7,995,000
Bond Premium Received			53,865		53,865
Bond Principal - Refunding Bonds			(7,580,000)		(7,580,000)
Operating Transfers In - Note O	172,627	138,162	2,615,661		2,926,450
Operating Transfers Out - Note O	(138,162)			(2,788,288)	(2,926,450)
TOTAL OTHER FINANCING SOURCES	34,465	138,162	3,084,526	(2,788,288)	468,865
NET CHANGE IN FUND BALANCES	(489,061)	0	19,206	(1,175,915)	(1,645,770)
FUND BALANCES - BEGINNING	2,847,065	10,628	0	1,770,440	4,628,133
FUND BALANCES - ENDING	2,358,004	10,628	19,206	594,525	2,982,363

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		(1,645,770)
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(1,738,179)	
Capital Outlays	<u>1,625,322</u>	(112,857)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Principal Paid	9,428,996	
Bond Proceeds	<u>(8,048,865)</u>	1,380,131
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization-Deferred Outflow on Bond Refundings	(103,371)	
Amortization - Bond Premiums	1,180	
District Pension Contributions	651,041	
Cost of Benefits Earned Net of Employee Contributions	(1,314,099)	
Accrued Interest Payable	90,791	
Amortization - Deferred Gain on QZAB	13,438	
Deferred Outflows from Advanced Bond Refundings	367,420	
Accrued Sick Leave	<u>(16,936)</u>	(310,536)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>(689,032)</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	<u>ENTERPRISE FUNDS</u>
	<u>FOOD SERVICE</u>
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	505,867
Accounts Receivable	9,026
Inventories for Consumption	<u>33,987</u>
Total Current Assets	548,880
Noncurrent Assets:	
Furniture & Equipment	1,928,460
Less: Accumulated Depreciation	<u>(1,206,233)</u>
Total Noncurrent Assets	<u>722,227</u>
TOTAL ASSETS	<u><u>1,271,107</u></u>
LIABILITIES:	
Current Liabilities:	
Account Payable	<u>685</u>
Total Current Liabilities	685
Net Position:	
Net Investment in Capital Assets	722,227
Restricted	<u>548,195</u>
Total Net Position	<u><u>1,270,422</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>1,271,107</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>ENTERPRISE FUNDS</u>
	<u>FOOD SERVICE</u>
OPERATING REVENUES:	
Lunchroom Sales	510,010
Other Operating Revenues	<u>80</u>
TOTAL OPERATING REVENUES	<u>510,090</u>
OPERATING EXPENSES:	
Salaries & Benefits	1,057,801
Contract Services	11,921
Materials & Supplies	1,134,681
Depreciation - Note F	74,806
Other Operating Expenses	<u>3,428</u>
TOTAL OPERATING EXPENSES	<u>2,282,637</u>
OPERATING INCOME(LOSS)	(1,772,547)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,713,556
State Grants	197,543
Donated Commodities	84,027
Interest Income	<u>1,772</u>
TOTAL NONOPERATING REVENUE	<u>1,996,898</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	224,351
CAPITAL CONTRIBUTIONS	<u>0</u>
CHANGE IN NET POSITION	224,351
TOTAL NET POSITION - BEGINNING	<u>1,046,071</u>
TOTAL NET POSITION - ENDING	<u><u>1,270,422</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	FOOD SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	510,010
Other Activities	80
Cash Paid to/for:	
Employees	(878,957)
Supplies	(1,069,992)
Other Activities	(15,349)
Net Cash Provided (Used) by Operating Activities	(1,454,208)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Federal Grants	1,704,652
State Grants	18,699
Net Cash Provided by Non-Capital and Related Financing Activities	1,723,351
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest Income	1,772
Net Increase in Cash and Cash Equivalents	270,915
Balances, Beginning of Year	234,952
Balances, End of Year	505,867
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Loss	(1,772,547)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	74,806
State On-Behalf Payments	178,844
Donated Commodities	84,027
Change in Assets and Liabilities:	
Accounts Receivable	-
Inventory	(18,951)
Accounts Payable	(387)
Net Cash Provided (Used) by Operating Activities	(1,454,208)
Schedule of Non-Cash Transactions:	
Donated Commodities	84,027
State On-Behalf Payments	178,844

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2016

	<u>AGENCY FUND</u>	<u>SCHOLARSHIP FUND</u>
ASSETS:		
Cash and Cash Equivalents	250,589	3,085
Accounts Receivable		
TOTAL ASSETS	<u>250,589</u>	<u>3,085</u>
LIABILITIES:		
Due to Student Groups	<u>250,589</u>	
TOTAL LIABILITIES	<u>250,589</u>	<u>0</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>	<u><u>3,085</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Scholarship Funds Contributed	200
DEDUCTIONS:	
Benefits Paid	<u>500</u>
Changes in Net Position	(300)
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>3,385</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>3,085</u></u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Russell County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Russell County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Russell County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Russell County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Russell County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$0.504 per \$100 valuation for real property, \$0.504 per \$100 valuation for business personal property, and \$0.522 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Revenue Source

Special Revenue

State, Local and Federal Grants

Net Position

Net Position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$4,273,425. Of the total cash balance, \$269,206 was covered by Federal Depository Insurance and \$4,004,219 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2016, consisted of the following:

	Bank Balance	Book Balance
First National Bank	<u>5,798,699</u>	<u>4,273,425</u>
Breakdown per financial statements:		
Governmental Funds		3,513,884
Proprietary Funds		<u>505,867</u>
Subtotal		4,019,751
Fiduciary Funds		3,085
Agency Funds		<u>250,589</u>
Total Cash and Cash Equivalents All Funds		<u>4,273,425</u>

NOTE D – INVESTMENTS

The District held no investments on June 30, 2016.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Russell County School District Finance Corporation aggregating \$36,400,000.

The original amount of each issue and interest rates are summarized below:

2006 Unrefunded	175,000	3.75%
2006R	4,780,000	3.35% - 4.00%
2007 Unrefunded	695,000	4.00%
2011	5,940,000	1.00% - 3.50%
2013 Refunding	4,840,000	1.00% - 2.05%
2014	10,875,000	2.00% - 4.00%
2015	1,640,000	2.50% - 3.50%
2015 Refunding	2,060,000	2.00% - 2.50%
2016 Refunding	5,395,000	2.00% - 2.25%

The District, through the General Fund (including utility taxes and the Support Education Excellence (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Russell County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

On September 1, 2015, the District issued \$2,060,000 in Refunding Revenue Bonds with an average interest rate of 2.25 percent to advance refund \$1,965,300 of outstanding 2006 Bonds. The refunding was an advance refunding. The net proceeds of \$2,035,230 (after \$34,550 in bond issuance costs, \$15,075 in additional proceeds for bond premium, \$5,295 in excess cash which was deposited in the bond payment fund.) were used to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to call the bonds. The net present value of the savings from the new bond issuance is \$116,909 as described in the bond issuance documents.

On April 1, 2016, the District issued \$5,935,000 in Refunding Revenue Bonds with an average interest rate of 2.25 percent to advance refund \$5,615,000 of outstanding 2006 Series B Bonds. The refunding was an advance refunding. The net proceeds of \$5,912,490 (after \$59,240 in bond issuance costs, \$38,789 in additional proceeds for bond premium, \$2,059 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to call the bonds. The net present value of the savings from the new bond issuance is \$489,686 as described in the bond issuance documents.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2016, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2016-17	1,790,000	926,959	143,499	2,573,460
2017-18	1,815,000	909,079	143,258	2,580,821
2018-19	1,860,000	859,934	142,647	2,577,287
2019-20	1,910,000	809,849	143,677	2,576,172
2020-21	1,890,000	749,749	67,353	2,572,396
2021-22	1,945,000	703,498	67,353	2,581,145
2022-23	1,985,000	655,676	67,353	2,573,323
2023-24	2,030,000	605,437	58,963	2,576,474
2024-25	2,060,000	552,907	37,113	2,575,794
2025-26	2,120,000	493,912	33,543	2,580,369
2026-27	2,130,000	446,625	26,545	2,550,080
2027-28	2,170,000	392,944	0	2,562,944
2028-29	1,430,000	342,425	0	1,772,425
2029-30	1,480,000	296,463	0	1,776,463
2030-31	1,525,000	247,025	0	1,772,025
2031-32	1,580,000	194,400	0	1,774,400
2032-33	1,635,000	139,100	0	1,774,100
2033-34	1,700,000	74,700	0	1,774,700
2034-35	<u>220,000</u>	<u>7,700</u>	<u>0</u>	<u>227,700</u>
	<u>33,275,000</u>	<u>9,408,382</u>	<u>931,304</u>	<u>41,752,078</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	34,505,000	7,995,000	9,225,000	33,275,000	1,790,000
Capital Lease Obligations	673,051	0	203,996	469,055	196,404
Accrued Sick Leave	<u>832,321</u>	<u>178,653</u>	<u>161,717</u>	<u>849,257</u>	<u>196,070</u>
Governmental Activities					
Long-Term Liabilities	<u>36,010,372</u>	<u>8,173,653</u>	<u>9,590,713</u>	<u>34,593,312</u>	<u>2,182,474</u>

NOTE F - CAPITAL LEASE PAYABLE

The District is the lessee of buses, a garbage truck, and school improvements under capital leases expiring in various years through 2020. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2016.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2016</u>
Gross amount of assets	1,671,830
Accumulated Amortization	<u>(1,020,509)</u>
	<u>651,321</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2017	196,404
2018	145,266
2019	120,645
2020	<u>32,736</u>
Net minimum lease payments	495,051
Amount representing interest	<u>(25,996)</u>
Present value of net minimum lease payments	<u>469,055</u>

Interest rates on capitalized leases vary from 1.00% to 3.875%. The capital leases provide for the buses and technology equipment to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	1,033,505			1,033,505
Construction In Progress	315,043	1,180,310		1,495,353
Depreciable Assets:				
Land Improvements	1,423,548			1,423,548
Buildings & Building Improvements	62,879,062			62,879,062
Technology Equipment	1,587,630		4,372	1,583,258
Vehicles	4,798,770	445,012	310,724	4,933,058
General Equipment	863,057			863,057
TOTAL AT HISTORICAL COST	72,900,615	1,625,322	315,096	74,210,841
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	1,327,566	21,412		1,348,978
Buildings & Building Improvements	14,900,519	1,465,391		16,365,910
Technology Equipment	1,483,683	50,141	4,372	1,529,452
Vehicles	4,093,260	178,058	310,724	3,960,594
General Equipment	693,130	23,177		716,307
TOTAL ACCUMULATED DEPRECIATION	22,498,158	1,738,179	315,096	23,921,241
GOVERNMENTAL ACTIVITIES CAPITAL NET	50,402,457	(112,857)	0	50,289,600
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Buildings and Improvements	1,026,343			1,026,343
Technology Equipment	28,409			28,409
General Equipment	873,708			873,708
TOTALS AT HISTORICAL COST	1,928,460	0	0	1,928,460
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings and Improvements	407,156	20,239		427,395
Technology Equipment	24,558	3,463		28,021
General Equipment	699,713	51,104		750,817
TOTAL ACCUMULATED DEPRECIATION	1,131,427	74,806	0	1,206,233
PROPRIETARY ACTIVITIES CAPITAL NET	797,033	(74,806)	0	722,227
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,536,201
Student Support Services				129
Staff Support Services				139
District Administration				1,677
Plant Operation & Maintenance				20,168
Student Transportation				179,781
Central Office				84
TOTAL				1,738,179

NOTE H – RETIREMENT PLANS

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 12.355% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 13.355% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 6,847,176
Commonwealth's proportional share of the KTRS net pension liability associated with the District	<u>90,918,931</u>
	<u>\$ 97,766,107</u>

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was 0.159254% percent.

For the year ended June 30, 2016, the District recognized pension expense of \$663,058 related to CERS and \$1,880,329 related to KTRS. The District also recognized revenue of \$1,880,329 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 56,902	\$ -
Changes of assumptions	690,463	-
Net difference between projected and actual earnings on pension plan investments	61,379	449,600
Changes in proportion and differences between District contributions and proportionate share of contributions	104,450	-
District contributions subsequent to the measurement date	<u>781,137</u>	<u>-</u>
Total	<u>\$ 1,694,331</u>	<u>\$ 449,600</u>

\$781,137 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	143,252
2018	143,252
2019	143,252
2020	21,564
2021	12,704

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Actuarial assumptions—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.5%	7.5%	8.5%
District's proportionate share of net pension liability	8,741,271	6,847,176	5,225,052
KTRS	3.88%	4.88%	5.88%
District's proportionate share of net pension liability	0	0	0

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers’ Compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Netherlands Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	1,180,310
Special Revenue Fund	138,162
General Fund	523,526
Debt Service Fund	3,065,320

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	138,162
Operating	Capital Outlay	General	Operating	172,627
Operating	Capital Outlay	Debt Service	Debt Service	90,195
Operating	Building Fund	Debt Service	Debt Service	<u>2,525,466</u>
Total Funds Transferred				<u>2,926,450</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2016.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 21, 2016. There are no material subsequent events to disclose.

NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2016, \$5,706,577 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were as follows:

Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$1,880,329
Health Insurance	3,566,660
Life Insurance	5,413
Administrative Fee	39,772
HRA/Dental/Vision	119,000
Federal Reimbursement	(212,117)
Technology	57,645
SFCC Debt Service Payments	<u>249,875</u>
Total	<u>\$5,706,577</u>

REQUIRED SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	5,105,000	5,105,000	5,132,736	27,736
Other Local Sources	87,500	87,500	25,431	(62,069)
State Sources	13,014,000	13,014,000	17,283,764	4,269,764
Federal Sources	320,000	320,000	362,053	42,053
Other Sources		0	374,135	374,135
TOTAL REVENUES	18,526,500	18,526,500	23,178,119	4,651,619
EXPENDITURES:				
Instructional	10,603,777	10,603,777	13,840,732	(3,236,955)
Student Support Services	1,506,451	1,506,451	1,757,860	(251,409)
Staff Support Services	442,915	442,915	612,006	(169,091)
District Administration	2,343,820	2,343,820	832,856	1,510,964
School Administration	1,212,254	1,212,254	1,474,161	(261,907)
Business Support Services	624,675	624,675	755,057	(130,382)
Plant Operation & Maintenance	2,258,603	2,258,603	2,098,767	159,836
Student Transportation	1,977,670	1,977,670	2,004,651	(26,981)
Community Service Operations	0	0	36,594	(36,594)
Debt Service:				
Principal	106,317	106,317	106,316	1
Interest	10,018	10,018	10,018	0
Other			138,162	(138,162)
TOTAL EXPENDITURES	21,086,500	21,086,500	23,667,180	(2,580,680)
NET CHANGE IN FUND BALANCE	(2,560,000)	(2,560,000)	(489,061)	2,070,939
FUND BALANCES - BEGINNING	2,560,000	2,560,000	2,847,065	0
FUND BALANCES - ENDING	0	0	2,358,004	2,070,939

On-behalf payments totaling \$5,277,858 are not budgeted by the Russell County School District.

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	0	0	351	351
State Sources	121,433	1,280,980	1,087,193	(193,787)
Federal Sources	1,582,287	1,676,147	2,866,995	1,190,848
Other Sources	0	160,223	202,485	42,262
TOTAL REVENUES	1,703,720	3,117,350	4,157,024	1,039,674
EXPENDITURES:				
Instructional	1,432,924	2,154,402	3,091,302	(936,900)
Student Support Services	4,501	138,575	138,335	240
Staff Support Services	201,390	373,563	510,013	(136,450)
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	26,967	28,175	36,950	(8,775)
Plant Operation & Maintenance	0	43,190	42,921	269
Student Transportation	0	63,500	37,730	25,770
Food Service	0	0	0	0
Central Office	0	0	0	0
Community Service Operations	37,938	270,912	299,773	(28,861)
Facility Acquisition & Construction	0	0	0	0
Other	0	45,033	0	45,033
TOTAL EXPENDITURES	1,703,720	3,117,350	4,157,024	(1,039,674)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0		10,628	0
FUND BALANCES - ENDING	0	0	10,628	0

See accompanying auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 KENTUCKY TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
District's proportion of net pension liability	0.0%	0.0%
District's proportionate share of the net pension liability	\$ 0	0
State of Kentucky's share of the net pension liability associated with the District	<u>82,380,634</u>	<u>90,918,931</u>
Total	<u>\$ 82,380,634</u>	<u>90,918,931</u>
District's covered-employee payroll	\$ 12,998,609	13,375,782
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
District's proportion of net pension liability	.155204%	.159254%
District's proportionate share of the net pension liability	\$ 5,035,000	6,847,176
State of Kentucky's share of the net pension liability associated with the District	<u>0.00</u>	<u>0.00</u>
Total	<u>\$ 5,035,000</u>	<u>6,847,176</u>
District's covered-employee payroll	\$ 3,721,627	3,816,206
District's proportionate share of the net pension liability as a percentage of its covered-payroll	135.29%	179.42%
Plan fiduciary net position as a percentage of the total pension liability	65.96%	63.46%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
Contractually required contributions (actuarially determined)	\$ 657,613	\$ 651,041
Contributions in relation to the actuarially determined contributions	<u>657,613</u>	<u>651,041</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 657,613	\$ 651,041
Contributions as a percentage of Covered employee payroll	17.67%	17.06%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
KENTUCKY TEACHERS RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
Contractually required contributions (actuarially determined)	\$ 489,687	\$ 602,604
Contributions in relation to the actuarially determined contributions	<u>489,687</u>	<u>602,604</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$12,998,608	\$13,375,782
Contributions as a percentage of Covered employee payroll	3.77%	4.51%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

KENTUCKY TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2016 reported in that schedule:

Valuation Date	June 30, 2014
Inflation	3.50 percent
Salary Increases	4.00 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	4.35 Percent
Measurement Date	3.82 Percent
Year FNP is Projected to be Depleted	2039
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	5.23 percent
Measurement Date	4.96 Percent
Post-Retirement Benefit Increases	1.50% annually

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY INFORMATION

RUSSELL COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DISTRICT ACTIVITY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents		4,776	21,578	590,130	616,484
TOTAL ASSETS	<u>0</u>	<u>4,776</u>	<u>21,578</u>	<u>590,130</u>	<u>616,484</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable		1,980	19,979		21,959
Total Liabilities	<u>0</u>	<u>1,980</u>	<u>19,979</u>	<u>0</u>	<u>21,959</u>
Fund Balances:					
Restricted for:					
Other		2,796	1,599		4,395
Capital Projects				590,130	590,130
Total Fund Balances	<u>0</u>	<u>2,796</u>	<u>1,599</u>	<u>590,130</u>	<u>594,525</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>0</u>	<u>4,776</u>	<u>21,578</u>	<u>590,130</u>	<u>616,484</u>

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DISTRICT ACTIVITY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Taxes	1,651,548				1,651,548
Intergovernmental - State	873,918	265,618			1,139,536
Earnings on Investments				6,361	6,361
Other Sources			21,578		21,578
TOTAL REVENUES	2,525,466	265,618	21,578	6,361	2,819,023
EXPENDITURES:					
Support Services:					
Plant Operation & Maintenance			19,979		19,979
Facilities Acquisition & Construction				1,186,671	1,186,671
TOTAL EXPENDITURES	0	0	19,979	1,186,671	1,206,650
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	2,525,466	265,618	1,599	(1,180,310)	1,612,373
OTHER FINANCING SOURCES(USES):					
Operating Transfers In					0
Operating Transfers Out	(2,525,466)	(262,822)			(2,788,288)
TOTAL OTHER FINANCING SOURCES(USES)	(2,525,466)	(262,822)	0	0	(2,788,288)
NET CHANGE IN FUND BALANCES	0	2,796	1,599	(1,180,310)	(1,175,915)
FUND BALANCES - BEGINNING	0	0	0	1,770,440	1,770,440
FUND BALANCES - ENDING	0	2,796	1,599	590,130	594,525

See independent auditor's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	FUND BALANCE JULY 1, 2015	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2016
Russell Springs Elementary	63,047	23,437	51,209	35,275
Jamestown Elementary	17,697	10,305	13,480	14,522
Salem Elementary	19,038	18,383	14,441	22,980
Russell County Middle School	28,773	55,824	53,077	31,520
Russell County High School	142,786	287,823	284,317	146,292
Total Activity Funds (Due to Student Groups)	271,341	395,772	416,524	250,589

See independent accountant's report and accompanying notes to financial statements.

RUSSELL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	CASH BALANCE JULY 1, 2015	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2016	ACCOUNTS RECEIVABLE JUNE 30, 2016	ACCOUNTS PAYABLE JUNE 30, 2016	FUND BALANCE JUNE 30, 2016
Academic Team	292	500	553	239			239
Agriculture (Shop)	2,812		523	2,289			2,289
Art Club	1,773	200	644	1,329			1,329
Athletic	67,008	114,286	126,630	54,664			54,664
Book Club	0	80	0	80			80
B.O.S.S.	987	600	989	598			598
Concession	3,305	5,653	8,000	958			958
Dance Team	71	4,137	4,200	8			8
DECA	1,365	5,916	5,788	1,493			1,493
Drama	901	945	437	1,409			1,409
FCA	460	200	0	660			660
FCCLA	1,236	0	0	1,236			1,236
FFA	8,327	21,424	13,263	16,488			16,488
Flower & Gift Fund	1,656	4,163	4,644	1,175			1,175
Freshman Class	253	0	252	1			1
History Club	157	0	157	0			0
Horticulture	2,053	1,110	1,438	1,725			1,725
Junior Class	49	0	49	0			0
Laker Bakery	900	309	425	784			784
Library	2,090	1,055	1,967	1,178			1,178
Miscellaneous / General	24,900	31,778	20,525	36,153			36,153
Newspaper	1,569	0	1,569	0			0
Pride Club	17	0	17	0			0
ROTC	10,845	10,064	8,987	11,922			11,922
Senior Class	4,664	49,985	50,537	4,112			4,112
Sophomore	42	0	42	0			0
World Language	1,440	1,814	1,568	1,686			1,686
Spirit Club	1,132	1,365	1,714	783			783
State Books	397	0	397	0			0
Student Council	1,920	0	0	1,920			1,920
Tech Ed	27	136	163	0			0
WLKR	1,193	1,382	600	1,975			1,975
Y-Club	(36)	17,239	16,311	892			892
Yearbook	(1,183)	23,375	22,192	0			0
Youth Service Center	164	1,000	629	535			535
Total All Funds	142,786	298,716	295,210	146,292	0	0	146,292
Interfund Transfers	0	(10,893)	(10,893)	0	0	0	0
Total	142,786	287,823	284,317	146,292	0	0	146,292

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310A	112,909
Title I - Professional Development of District	84.010	3100002	310AD	42,009
Title I - Parent Involvement	84.010	3100002	310AM	3,056
Title I - Grants to Local Educational Agencies	84.010	3100002	310B	1,025,598
Title I - Parent Involvement	84.010	3100002	310BM	3,182
Title I - Grants to Local Educational Agencies	84.010	3100002	3104	26,310
Title I - Professional Development of District	84.010	3100002	310BD	25,812
Title I - Parent Involvement	84.010	3100002	3104M	1,643
Title I Cluster				<u>1,240,519</u> *
Title II - Part A -Teacher Quality Enhancement Grants	84.367	3230002	401A	1,048
Title II - Part A -Teacher Quality Enhancement Grants	84.367	3230002	401B	162,276
Title II Total				<u>163,324</u>
Title III - Limited English Proficiency	84.365	3300002	345A	22,429
Perkins Voc.	84.048	3710001	348AA	733
Perkins Voc.	84.048	3710001	348B	21,711
Total Perkins Voc.				<u>22,444</u>
IDEA - Special Education - Grants to State	84.027	3810002	337A	450,959
IDEA - Special Education - Grants to State	84.027	3810002	3374	235,824
Special Education Cluster				<u>686,783</u>
21st Century Learning Center	84.287	3400002	550A	55,327
21st Century Learning Center	84.287	3400002	550AC	65,442
21st Century Learning Center	84.287	3400002	5505S	165
21st Century Learning Center	84.287	3400002	5504J	2,000
22nd Century Learning Center	84.287	3400002	5504	11,283
23rd Century Learning Center	84.287	3400002	5504C	13,533
23rd Century Learning Center	84.287	3400002	5505J	2,337
23rd Century Learning Center	84.287	3400002	5505M	634
24th Century Learning Center	84.287	3400002	5505R	4,394
21st Century Learning Center Total				<u>155,115</u>
Migrant Education - State Grant Program	84.011	3110002	311A	21,875
Migrant Education - State Grant Program	84.011	3110002	311AP	48
Migrant Education - State Grant Program	84.011	3110002	311AS	11,020
Migrant Education - State Grant Program	84.011	3110002	311B	54,154
Migrant Education - State Grant Program	84.011	3110002	311BP	434
Migrant Education - State Grant Program	84.011	3110002	311BS	1,915
Migrant Education Total				<u>89,446</u>
Race to the Top	84.395	3960002	436A	16,833
Race to the Top	84.395	3960002	4364	1,923
Race to the Top	84.395	3960002	436B	34,321

Race to the Top	84.395	3960002	4521	92
Race to the Top	84.395	3960002	4523	76,011
Race to the Top Total				129,180
Impact Aid	84.410	Direct	GF	253,913
Federal Adult Education	84.002	373B	373B	36,055
Federal Adult Education	84.002	365B	365B	9,111
Federal Adult Education - PD	84.002	373BS	373BS	617
Federal Adult Education Total				45,783
Title IV - Rural and Low Income Schools	84.358	3140002	350A	32,296
Title IV - Rural and Low Income Schools	84.358	3140002	350B	57,901
Title IV - Rural and Low Income Schools Total				90,197
Total U.S. Department of Education				2,899,133
<u>U.S. Department of Labor</u>				
Passed Through Lake Cumberland Area Development District				
WIA-Regular Youth Program	17.259	588AA	588AA	208
Total U.S. Department of Labor				208
<u>U.S. Department of Health and Human Services</u>				
Passed Through Big Sandy Area Development District				
Temporary Assistance for Needy Families	93.558	004A	004A	10,876
Temporary Assistance for Needy Families	93.558	004B	004B	160,415
Total U.S. Department of Health and Human Services				171,291
<u>U.S. Department of Defense</u>				
NJROTC	12.404	Direct	504A	74,097
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
National School Lunchroom	10.555	7750002-15	7750002-15	277,480
National School Lunchroom	10.555	7750002-16	7750002-16	995,407
School Breakfast Program	10.553	7760005-15	7760005-15	141,034
School Breakfast Program	10.553	7760005-16	7760005-16	512,619
Child Nutrition Cluster				1,926,540
Child and Adult Care Food Program (CACFP)	10.558	7790021-15	7790021-15	21,686
Child and Adult Care Food Program (CACFP)	10.558	7790021-16	7790021-16	104,079
Child and Adult Care Food Program (CACFP)	10.558	7800016-15	7800016-15	1,678
Child and Adult Care Food Program (CACFP)	10.558	7800016-16	7800016-16	8,052
Child and Adult Care Food Program (CACFP) Cluster				135,495
Pass-Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	84,027
Total U.S. Department of Agriculture				2,146,062
Total Federal Financial Assistance				5,290,791

* Tested as major program

RUSSELL COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Russell County School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Meade County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Russell County School District.

NOTE B – FOOD DISTRIBUTION

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

RUSSELL COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016

There were no prior year audit findings.

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October 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*., the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements, and have issued our report thereon dated October 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Russell County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Russell County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Russell County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russell County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Russell County School District in a separate letter dated October 21, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

Report on Compliance for Each Major Federal Program

We have audited Russell County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Russell County School District's major federal programs for the year ended June 30, 2016. Russell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contract, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Russell County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Russell County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Russell County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Russell County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Russell County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Russell County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Russell County School District's basic financial statements. We issued our report thereon dated October 21, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from

and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.

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October 21, 2016

MANAGEMENT LETTER

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

In planning and performing our audit of the financial statements of Russell County School District for the year ended June 30, 2016, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2015, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

During the audit, it was noted that the District there were incidents where invoices were paid 60 plus days late. We recommended that the District enhance its procedures to ensure that all invoices are paid on a timely basis.

Current Year Finding:

No instances of invoices being paid late were noted.

Prior Year Recommendation:

During the testing of school activity funds, it was noted that neither receiving reports nor signed invoices were present to document that the goods purchased had been received prior to payment. Schools should document the receipt of goods prior to disbursing payment.

Current Year Finding:

During current year testing, it was noted that there was one instance where no receiving report or signed invoice noting receipt of goods purchased was present. We suggest that the school personnel ensure that proper documentation be maintained to prove receipt of goods purchased.

Prior Year Recommendation:

During the testing of school activity funds, it was noted that there were instances where the requisition form and purchase order did not contain any signatures. The Redbook requires the requestor's signature and the principal's approval signature before a purchase can be initiated. We recommend that school personnel follow the Redbook rules related to purchases.

Current Year Finding:

No instances of requisition forms and purchase orders not containing any signatures were found. However, there was one instance where the requisition form and purchase order did not contain the club sponsor's signature. We recommend that all teachers and club sponsors be made aware of the requirement that they sign these forms prior to submitting them for approval.

Prior Year Recommendation:

During the testing of the school activity funds, it was noted that there was a disbursement paid from a purchase order. No other supporting documentation was maintained. The Redbook requires that all disbursements must have a vendors invoice supporting the disbursement of funds. We recommend that school personnel follow the required procedures outlined in the Redbook related to disbursements.

Current Year Finding:

There was one instance noted where the disbursement was paid from a purchase order without the supporting invoice. We recommend that the school bookkeepers be made aware of the requirement that funds disbursed from the activity funds must be supported by an original invoice.

Prior Year Recommendation:

During the testing of the school activity funds, it was noted that class and school supplies were purchased from the school activity funds. These purchases were for operational expenses, which are expenses of the district, and are not allowed expenses for school activity funds. We recommend that school personnel monitor purchase requests from the activity funds to ensure that operating expenses are not being paid out of the school activity accounts.

Current Year Finding:

No instances where school operating expenses were paid from the activity funds were noted.

Prior Year Recommendation:

During the testing of the school activity funds, it was noted that multiple receipt forms are not being signed by students. The Redbook requires all students 3rd grade and above to sign the multiple receipt form when turning in funds to the teacher or club sponsor. We recommend that teachers and club sponsors be made aware of this rule to ensure compliance.

Current Year Finding:

During the current year testing there was one instance where the multiple receipt form was not prepared as required. We recommend that all sponsors and teachers be made aware of this requirement.

Prior Year Recommendation:

During the testing of disbursements at the District level, there were instances noted where the disbursement check issued lacked the secondary signature of the superintendent required according to board policy for disbursements greater than \$1,000. We recommend that District personnel ensure that they adhere to the board's policy that the superintendent sign checks greater than \$1,000.

Current Year Finding:

No instances were noted where checks greater than \$1,000 lacked the secondary signature.

Prior Year Recommendation:

During the testing of disbursements at the District level, there were instances noted where there was no receiving report or other proof such as a signed invoice that the goods being paid for were received. We recommend District personnel receiving goods document that all items being invoiced were received by completing a receiving report or signing the invoice.

Current Year Finding:

No instances were noted where proof of receipt of goods was not properly documented.

Prior Year Recommendation:

During the testing of disbursements at the District level there were instances noted where there was no evidence of approval on the purchase order for a disbursement. We recommend that prior to any purchases being initiated with a vendor that the purchase order be properly reviewed and approved by a supervisor or district office personnel.

Current Year Finding:

No instances were noted where there was no evidence of approval of the purchase order for a disbursement.

Prior Year Recommendation:

During the testing of the high school activity funds it was noted that there were two activity funds that ended the year with negative balances. The *Redbook* requirements state that no activity fund shall end the year with a negative balance and any with negative balances be zeroed out through a transfer from the general activity fund at the school. We recommend that at year end the balances of each activity fund be reviewed for negative balances and those with negative balances be zeroed out as required.

Current Year Finding:

No activity funds ended the year with a negative balance.

Current Year Recommendation:

During audit testing at the District level, it was noted that there was an instance where stamps were purchased but there was no supporting receipt for the disbursement. We recommend that the invoice or receipt supporting the disbursement of funds be attached to the voucher package.

Management Response:

We will ensure that all future disbursements have the supporting invoice or receipt attached to the voucher package.

Current Year Recommendation:

During the testing of the school activity funds cash receipts it was noted that there were instances where the receipt did not have both the sponsor and the bookkeeper's signature verifying the funds received. We recommend that sponsors and school bookkeepers be made aware of the requirement that both signatures are required on receipts as proof of receipt of funds.

Management Response:

We will inform school personnel and bookkeepers that both signatures are required on receipts at the time the funds are received.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Email charles.white@whitecpas.com

October 21, 2016

Members of the Board of Education
Russell County School District
404 South Main Street
Jamestown, KY 42629

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Russell County School District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Russell County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by Russell County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Russell County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Russell County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 42 and 43, or on the schedules of the district's proportionate share of net pension liabilities on pages 44 and 45, or on the schedules of contributions to the County Employees Retirement Plan and the Kentucky Teachers Retirement System on pages 46 and 47, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Russell County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants